10-1968

Woman CPA Volume 30, Number 6, October, 1968

American Woman's Society of Certified Public Accountants

American Society of Women Accountants

the WOMAN CPA

THE DEONTOLOGY OF BOOKKEEPING
By Mary E. Burnet, CPA

ESSAYS BY A BELGIAN ACCOUNTANT
By Amand Coekelberghs

ACCOUNTING FOR FARMERS AND RANCHERS
By Sue Wegenhoft Briscoe, CPA

DEPARTMENTS

- *Editor's Notes*
- *Tax Forum*
- *Reviews*
- *Letters*

OCTOBER 1968

THE WOMAN CPA October 1968 Volume 30, Number 6

Official publication of the American Woman's Society of Certified Public Accountants and the American Society of Women Accountants.

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MAJOR ARTICLES

DEPARTMENTS

EDITORIAL STAFF

EDITOR'S NOTES

As we reach the final issue of our publishing year, your attention is directed to our stated guideline at the year's inception. At that time we wrote, "I believe that THE WOMAN CPA will best serve women in the accounting profession if we even more strenuously focus our efforts toward making it an instrument of education and a conduit of technical information in all areas of accounting thought."

Pursuant to the foregoing, we express our appreciation to our members and others for the quality of papers submitted by them upon which we are dependent for the progress which we feel has been made.

In reviewing the range of subjects covered in the six issues of Volume 30, it appears, probably more by accident than by design, that there has been something for everyone—the public practitioner, the industrial accountant, the educator. In order to keep it that way for the future, we solicit manuscripts that deal with new ideas, new approaches, new points of view.

Cognizant of the fact that there is really nothing new under the sun (i.e., stewardship accounting, census taking and inventory taking described in the Old Testament) we still must know that this age of computers and conglomerates needs thought and exposition to maximize its values to the betterment of our society.

To this high objective we pledge our efforts for the coming year.

INTERNATIONAL RELATIONS

In October of last year THE WOMAN CPA received a request from one Amand Coekelberghs on the letterhead of the Association Nationale de Comptables de Belgique and the National Associatie der Boekhouders van Belgie for a one page article on the subject, "What is the Bookkeeping's Deontology?" for publication in their quarterly periodical, ECHO. Publication date was expected to be in the first quarter of 1968 in celebration of the tenth anniversary of the formation of the Associations.

The presidents of AWSCPA and ASWA requested member Mary E. Burnet, CPA, Associate Professor of Accounting, Rochester Institute of Technology, to prepare the requested paper.

In the course of preparing the desired article (see page 5), Miss Burnet has carried on a correspondence with Mr. Coekelberghs with several interesting results. Mr. Coekelberghs has contributed the Essays (commencing on page 6) for publication in THE WOMAN CPA and Miss Burnet has reviewed articles for publication in the ECHO.

Following the publication of Miss Burnet's paper on "Deontology" in the ECHO, she has had contact with a German woman accountant from Dusseldorf who is connected with the JOURNAL UEC and who had read the article in ECHO.

It would appear that Mr. Coekelberghs has at least a start on his idea as expressed by him, "I hope that this will incite other members to be interested in other countries: Portugal, Sweden, etc. and will result in making ECHO a sort of turntable for the principle countries of the world." To quote further from Mr. Coekelberghs, in one of his letters to Miss Burnet, he said, "It is perfect! You write me in English and I will write to you in French. You write your articles in the language of Hemingway and I in that of Voltaire."

Although it has been necessary to utilize the services of one of Miss Burnet's colleagues at R.I.T. for translations, we believe that this people to people communication is invaluable in broadening the professional and cultural scope of understanding on an international basis.

As a matter of interest we find that the Association Nationale de Belgique was formed in 1958 under the sponsorship of the College National des Experts Comptables to represent the majority of accountants employed in commerce and in industry who do not qualify for membership in the College.

MISS MARY C. GILDEA, CPA

Miss Mary C. Gildea, CPA, one of the nine Founders of the American Woman's Society of Certified Public Accountants, National President of the American Society of Women Accountants, 1941-1943, and Editor of THE WOMAN CPA, 1944-1945, died on September 13, 1968 in Chicago, Illinois. A graduate of the University of Illinois, Miss Gildea was an active member of the Illinois Society of Certified Public Accountants and the American Institute of Certified Public Accountants. Miss Gildea was a partner in the accounting firm of Alexander Grant & Company at the time of her retirement a few years ago.

THE DEONTOLOGY OF BOOKKEEPING

Mary E. Burnet, CPA
Rochester, New York

Definitions

Deontology is the title of a book by Jeremy Bentham who introduced the term to denote a utilitarian system of ethics. Deontology may be defined as the science or theory of duty or moral obligation, the ethics of duty. Ethics, broadly speaking, is the science of the ideal human character and the ideal ends of human action.

Businesses in recent years have increased greatly in size and complexity, and this has caused a separation between management and other persons interested in business. Owners, creditors, the government, labor unions, customers, and the general public are interested in the profitability, stability, and financial status of businesses.

Bookkeeping is the central mechanics of an information system which provides to management and the other interested parties the information which they need for making informed decisions which will enable them to guide operations and plan for the future.

Commitments

The more complex society becomes, the greater the need for mutual trust and confidence among its components. Society is held together by laws, morals, and ethics. All great professions have a commitment to the public good as it may be served by the profession. One part of this commitment is the satisfaction of serving society, and the other is the practitioner's pride in his craft.

An accountant and a bookkeeper must conform to the standards of good citizenship generally accepted in his community, but in addition, because he is providing information upon which others depend, he has a moral obligation to abide by a code of professional ethics which involves self discipline above and beyond the requirements of the law.

Basis

The basis of professional ethics is the sense of strengthening society by the performance of a socially important function by means of special skills and disciplined judgment. The practitioner must understand the relationship of his work to the social and economic problems of his time. Without this understanding he becomes a highly skilled technician instead of a professional person.

A Working Tool

A code of ethics is, therefore, a practical working tool and is as necessary to a professional practitioner as is his knowledge of theoretical principles and technical procedures. Ethical concepts are subject to change with changing situations. They are not fixed, final, or precise, but no profession can continue to be effective unless adherence to a high standard of ethical conduct is maintained.

The bookkeeper and accountant have, to a marked degree, been the custodians of the moral standards of the business world.

MARY E. BURNET, CPA, is an Associate Professor at the Rochester Institute of Technology, School of Business Administration, Rochester, New York. A graduate of the University of Cincinnati with a degree in Commercial Engineering, she received her M.B.A. from Xavier University, Cincinnati, Ohio in 1958 and is presently a doctorial candidate at New York University.

Miss Burnet's wide range of work experience has included 13 years with the Kroger Company and 6 years as an Editorial Assistant with South Western Publishing Company, publishers of accounting text books.

Miss Burnet is a member of the American Institute of Certified Public Accountants, the American Accounting Association, the Accounting Research Association, the Ohio and New York State Societies of Certified Public Accountants, the American Woman's Society of Certified Public Accountants, the American Society of Women Accountants and the American Economics Association.

A willing and faithful book and article reviewer for THE WOMAN CPA, Miss Burnet has also had reviews translated into French and published in the official publication of the Association Nationale des Comptables des Belgique, the ECHO.

ESSAYS BY A BELGIAN ACCOUNTANT

Translated from the French by Professor William E. Beatty, Rochester Institute of Technology

Amand Coekelberghs
Brussels, Belgium

CONFIDENCE

The year 1968 will go down in history as the year of confidence. . .

Accountants should have the spirit of synthesis. They spend their time accumulating information that once a year they present in two pictures that could be held on one page. Only the economists surpass them in conciseness: a curve is sufficient for them; it is too bad that they so often feel the need to explain the reason for this curve, for then they are inexhaustible.

1968-confidence. This formula can only be an invention of accountants, for they know what confidence is worth.

March 21, 1968 marks a turning point in the history of gold and the dollar. That day Robert Triffin returned from the United States to his country, Belgium, and held a conference. The great financiers, Belgian and others, had waited to form opinions as to gold or the dollar, the neighboring country (France) or the United States of America; who would gain in the end? Should one buy gold without regard for the world's economy, or should one support the dollar and continue to strive toward a better solution?

In Belgium, 33 years previously, almost to the very day—March 15—Fernand Baudhuin, also an economist, stated in a broadcast, solely Belgian that time, his opinion that an immediate devaluation was necessary. Four days later, the government resigned; it did not have confidence.

On this evening of March 21, 1968, would Robert Triffin, well-known economist, cause another government to fall, a foreign one this time? Triffin preached confidence and the next day the situation began to clear up. The western world could breathe again.

Accountants knew how to appreciate this sudden change, they who should inspire confidence, who should create and support it.

To inspire confidence, one must know how to adapt oneself to its atmosphere. If you are a Beatle fan, it is better to express your devotion for them in private, to conceal your unusual tastes, and proclaim loudly that every evening you go to bed listening to Beethoven's Ninth Symphony or Chopin's Berceuse. This reflection having been made, the Berceuse is more likely.

For ladies this adaptation of the environment is more difficult than for men, for after all, with the new styles, elegance is measured by the length of the skirt. If it is not short enough, the boss will feel uncomfortable; he will ask himself, "Isn't my accountant current on accounting developments? I doubt it, because she does not appear to be very well informed on the caprices of style." If, on the other hand, the skirt is too short, he will experience another kind of malaise that will cause him to conclude, "My accountant is not serious."

The accountant should arouse confidence.

AMAND COEKELBERGHS, president of the Commission of the Public Relations of the National Accountant Association of Belgium and an accountant for more than twenty years, describes himself as "a specialist in moral articles, indeed philosophical, but written from a humorous viewpoint."

Born in 1922 in a suburb of Brussels, Anderlecht, which is known throughout Europe for its football team and management of community finances, Mr. Coekelberghs is proud of his community and hopes that one day it will be proud of him. He defends his profession with ardor and portrays it as the best of all professions.

To do this, he must create around him such a climate that the least of his words and acts will be considered as gospel. "My accountant said it," is the magic phrase that, when said by your boss, should end all discussions. Avoid talking too much, shade your opinions and verify your additions. You will benefit. The end of the day when you present documents for signature by the president will be less nerve-wracking. He will sign them, with his eyes closed.

But be careful; one error and that will be the end of these occasions when all of the mail will be dispatched with only a few sighs—from the signatory who asks why you so stubbornly refuse to sign them. Don't ever accept this honor (?); those who should have confidence will sleep peacefully; a signature is so easily traced.

Having inspired or created confidence, you must now sustain it. At the corner drugstore, there is a certain pocket-book entitled "How to Succeed in Life by Maintaining Confidence of Your Neighbors." The title is a little short, certainly, but it has already said what it means to say. You will find many tricks more or less adapted to your situation in society.

Here is one that I liked. When someone whispers to you something trifling, forget it; why burden yourself with it? Those around you will eventually know that you, at least, know how to keep a secret. They will confide other secrets to you because some people have an almost physical need to confess their secrets; forget them always. You will become the depository of secrets, otherwise known as the confidential person of the establishment. In other words, forgetting the secrets of others is to gain their confidence.

On the other hand. . .

But however good a discourse this may be, it may be too long; otherwise, the author will be guilty of the accusation he has made about too loquacious economists. I shall stop lest I lose the confidence you have accorded me by reading thus far.

PHILOSOPHY OF ACCOUNTING (1)

The word "philosophy" has many meanings: the study of principles, a group of ideas. After religion—Greek philosophy developed from religion—philosophy commands first place in the hierarchy of studies; it concerns the examination of "human problems of knowledge and of action" and criticism of them.

The word "philosophy" is used somewhat at random, like the word "love," for example. This word is often lowered: "What a lovely hat," "What a lovely dog." One might on occasion hear from two painted lips, "The philosophy of this cocktail is astounding."

You might even say of some tramps that they are philosophers, or of someone who is content with a mediocre life that he is a philosopher. Trying to live a life free of desires and cares, they are lonely persons, free from the slavery of society. Their manner of life is their philosophy but it concerns only their personal lives.

Philosophy studies a group of particular cases and endeavors to synthesize them into principles. After defining the means which permit the exercise of intelligence and reason, philosophy applies itself to problems of action sometimes called morality or ethics. Various branches of science are then studied.

The study of the principles of a science made by two people having the same intelligence but opposite moral values will yield different results. Likewise two people having the same moral values but with differing degrees of intelligence will bring different solutions to a scientific problem.

Accounting is dependent upon mathematics and history; mathematics because it is expressed in numbers, history because it strives to present a synthesis of past facts. Even when it concerns budgets, accounting is nonetheless historical because it compares past facts with future predictions.

We are going to study the facts of a science called accounting—facts that are fixed like a photograph projected on a screen and from which people suddenly begin to move. Facts exist, waiting like marionettes for the operator to animate them, endowing them with morality and intelligence. These facts will have several aspects; this will be a first demonstration and we will use with caution the expression "exact science" with which some would like to adorn professional accounting.

Accounting in a general sense is the art of giving an account. For example, Judas was the accountant of the apostles. Professional accounting has rules which moreover tend to become perfected from day to day. The actual principle of these rules is to group similar facts under headings called "accounts," and to record each fact in two accounts simultaneously. "Double Entry Accounting" is the name given to this way of doing things.

The recording of a transaction implies on the part of the narrator the necessity of understanding it. He must have judgment, which is the mark of intelligence. For example, the accountant must transcribe in his books the "events" described on a cash register slip. Seeing the single transaction "payment to bank

5000 francs," he has three possibilities: he will simply record the fact; he will note the irregularity and immediately protest to the cashier; or he will note the irregularity but will rationalize and will find in expenses "payment to bank" which explains the apparent irregularity. In effect, the payment could not have been made because the bank was closed. Thus three attitudes: absence of judgment, simple attenion and shrewd attention.

Thus we have demonstrated by accounting the necessity for intelligence in the narration of a fact. The accountant is a historian; upon the degree of his intelligence will depend the credibility of his work.

PHILOSOPHY OF ACCOUNTING (2)

Accountants, by virtue of their profession, have a moral philosophy different from that of internal revenue agents and merchants. To illustrate this, a merchant makes a contribution of a thousand francs to a charity and asks his accountant to charge it to the public relations account. Upon discovering this, the internal revenue agent exclaims, "Fraud!" "Correct entry," replies the accountant; "Professional expense," affirms the donor, regardless of the reasons behind his generosity. Three different conceptions of the same fact, ranging from bad to good.

But this is a question of superficial aspects of ethics—aspects related to morals, to one's usual habits. Gradually one adapts himself to a profession, a way of life, which forms the basis for his opinions, his judgment, his moral and physical conduct. A person in the business world is, in effect, in a neutral environment, each bearing silent testimony to his own concern. The manufacturer asks, "What are his securities?"; the dandy, "Where does he live?"; and the accountant, "Is he solvent?"

Moral conscience is more personal. Here it is not a question of appreciation, or of judging others, but of expressing an opinion or judgment of oneself. The elements of moral conscience are the will, sentiments (love, for example), and finally reason. It is according to these elements that we judge our acts when they are based on habits and when we make of them "cases of conscience."

We might compare a "case of conscience" to a balance sheet, which is an inventory on a given date. Here the date is the moment when we record an act which seems to come from habits we have acquired by virtue of our religion, our family and our profession. This inventory sums up our tendencies, which are based on our wills. If we are feeble, they will be changeable, adapting to present surroundings; we will be like a screen the whiteness of which is colored at the will of the projector. If our will is strong, we will not want to give in to demands which go against principles.

Our sentiments support or temper our wills, provoking a "case of conscience"; are we going to obey the impulse of our will which refuses to acquiesce? The respect that we have for this impulse will try to bribe us, as will our love—filial, marital or patriotic. Finally, reason will coordinate these often contradictory tendencies, by bearing on our will or reinforcing it, and by analyzing this respect, this love, and resolving it.

Returning to accounting terms and our balance sheet, as illustrations of a case of conscience, let us say that the will is a liability, the capital that we have brought in to edify our personal ethics, our conscience. Sentiments are assets, and reason is the "Profit and Loss Account." The balance will be on the right or on the left depending upon whether the elements of conscience are active or passive.

Let us imagine the case of an accountant who has an opportunity to appropriate a large sum without risk of being caught. He has just learned that a supplier will have his offer accepted by management the next day; three suppliers were competing. The supplier made it known that the accountant would be rewarded. The accountant may then say, "I accept your proposition; if you give me the money you will have the contract." Here is a case of conscience: is it good or bad?

The will says, "It is bad; it is contrary to ethics, because an accountant does not interfere in such contracts; he is paid only for giving his advice when asked." Marital love will say, "Thanks to this sum you will be able to buy this jewel your wife wants—you will have all that money can buy." Self respect will add, "But are you going to sell yourself for a few pieces of silver?"

Finally, reason decides the matter. If the accountant compromises himself, love will suffer because love built on money—especially wrongly acquired money—is in jeopardy. One might also say that love will be enriched for a moment, but remorse—another sentiment—will attenuate this suddenly acquired wealth, in part at least.

Reason—if the accountant gives in to it—will balance the scale as an "active agent." Sentiment and reason stand in the way of the will. If, encouraged by this first success (or faux pas) the accountant repeats the offense, the "assets" will diminish so much that the capital will be devalued; a fleeting will, perhaps occasionally a bankruptcy which will no longer record a "case of conscience."

If this picture makes you smile, please remember that serious discourses are repulsive to our pen, and that in such serious discourses we progress by prudent steps, having for our guide many heavy volumes that we try to lighten by bits of fantasy.

PHILOSOPHY OF ACCOUNTING (3)

It is never without a certain reticence that we sign a document "Certified true and exact." True, perhaps, but exact?

Accounting is history in figures and therefore belongs in the domain of mathematics. Even Einstein said that his propositions, for all they were related to reality, were not certain, and for all they might be certain, do not relate to reality.

Here is an example of a certain (exact) proposition that does not square with reality. A series of five annual statements shows that each year the current assets represented approximately 25% of total assets, which would indicate a certain liquidity. But a more detailed examination showed that this presentation of certain (exact) facts actually hid a lack of available assets, payments having been reported after the closing date.

Now let us imagine a proposition that is real but not certain. The orders of a corporation indicate a better year than in previous years when a comfortable profit was earned. At the same time, the solvency of customers not having been determined, the default of a single one could have an unfavorable influence; besides, these customers are to a certain extent dependent upon their customers.

The process of establishing a fact could be broken down into choosing, measuring, interpretation and correction. Suppose we want to establish the cost of a new machine. We will include the supplier's invoice, the transportation charges, as well as the installation costs. The accountant might wish to add other expenses such as studies to determine the need for the machine, modifications of the building, starting up and breaking in. All of these would be added and compared with the budget. Certain expenses might be excluded if they were not directly related to the installation of the machine.

If we realize that the establishment of such a simple fact as the cost of a machine is hazardous, even theoretical, we can understand why some philosophers have written, "A fact is an idea." Moreover, accounting does not develop merely from a constant observation of facts and classifying and recording them in a system designed to "make them speak."

It is here that accounting rejoins history. Facts are established thanks to documents which are subject to internal and external review. External review concerns the authenticity of source documents. (Armand Cuvillier) Suppose that at the time of verification of a balance sheet we audit the bank balance. The entries agree with the documents—within a few centimes, these having been omitted according to the controller, for simplification. We shake our heads, philosophize on the depreciation of money and go on to another verification. We begin to wonder how it is that centimes are no longer circulated in banks. We examine the document more closely and discover that the date has been cleverly altered.

Internal examination concerns the content of the documents, this content serving as evidence. This gives rise to the question of knowing the value of such evidence.

Accounting documents in general are classified as external, semi-external and internal. An invoice is a typical external document; it refers to merchandise, and is accompanied by an internal document, the receiving report. When the latter is signed by the delivering agent, it becomes a semi-external document.

These documents testify that on a certain date a quantity of merchandise was sold by a given supplier, and that it has been delivered to the purchaser; this evidence is as valid as the individuals who prepared the documents. Does the quality of the product conform to the order and to its description in the document? Is the agreed-upon price shown? Has the supplier given a commission to a member of the firm? Has a price higher than that indicated been paid?

To be sure of the value of evidence it is necessary to do some cross-checking; but can the accountant verify all of the evidence, when even the most convincing might not be totally reliable?

(Continued on page 13)

WILLING PEOPLE

"Our organization is made up, 100%, of willing people—those willing to work, and those willing to let them work."

From a Church Bulletin

ACCOUNTING FOR FARMERS AND RANCHERS

The author discusses the substantial tax benefits available to farmers and ranchers who are knowledgeable of accounting procedures and tax rules and use them advantageously.

Sue Wegenhoft Briscoe, CPA
Eagle Lake, Texas

The farming and ranching industry is a gigantic one, which is most important to the social and economic structure of our modern civilization. Yet, there is probably less material written about farm and ranch accounting and related tax problems than for any other major field of business enterprise.

For the most part, accountants and those with the Internal Revenue Service know little about the physical operations of a farm or ranch, and farmers and ranchers know little about accounting records or tax regulations. Most farmers and ranchers have no office outside their homes and their records often consist of deposit slips, cancelled checks, notes made in a little black book, and little else.

In setting up records, a double entry system should be used with appropriate journals and a general ledger. The farmer and the rancher have the option of keeping their records and preparing their income tax returns on a cash receipts and disbursements basis or on an accrual basis.

Cash Basis

If a cash basis is adopted, taxable income is not recognized until actually received, and expenses are not deducted until actually paid.

When a rancher purchases an animal for draft, breeding or dairy purposes, he must capitalize the purchase price of the animal and depreciate this cost over the animal's productive life, with due regard to salvage value. Raised animals receive different treatment from those that are purchased. The cost of raising the animals can be deducted as a current expense of operations.

The cash method will defer income while building up a herd since no income is realized for tax purposes until the cattle are sold, and no tax need be paid on the inventory value of livestock or produce on hand at the end of the year.

Under the present estate tax laws, a herd of raised livestock can be inherited at the date of the decedent's death and no income taxes will be due on its increase in value. There will be an estate tax liability on the value of the herd, but no income tax will ever be paid on this increase in value. At the date of death, a herd of raised livestock, which had a zero basis because the cost of raising it had been deducted as a current operating expense, will take on a basis, in the hands of heirs, equal to its market value at date of death. Thus, it is possible to build up an estate and pay no income tax on profit arising from the growth of the animals.

In the case of breeding, dairy, or draft animals sold, only one-half of the net income is taxable as long-term capital gain if the animals have been held for at least 12 months.

In the cash method of accounting, the basis

SUE WEGENHOFT BRISCOE, CPA, spends about half of her time operating her own public accounting practice which she established 14 years ago in Eagle Lake, Texas after serving four years as County Auditor of Colorado County. A graduate of Baylor University with a major in accounting (B.B.A., 1947) and of the University of Texas with a major in law and accounting (M.B.A., 1950) she also worked for a public accounting firm in Houston in 1949 and 1950.

With her husband, Lee (also an accountant with a degree from the University of Texas), she has traveled extensively abroad during the past seven years, touching every continent and most of the free countries in the world. Home is Eagle Lake, Texas and they have a ranch at La Grange, Texas.

Mrs. Briscoe is a member of the American Institute of Certified Public Accountants, the Texas Society of Certified Public Accountants, the American Woman's Society of Certified Public Accountants, the American Society of Women Accountants and the Texas University Ex-Students Association. She has served ASWA as a national director, treasurer and first vice president and was listed in the first edition of Who's Who of American Women, the twelfth edition of World Who's Who in Commerce and Industry and in 1962 was listed in Texas Women of Distinction.

of the raised animal is zero, and the difference between this zero basis and the sales price is reported as the sale of a capital asset on which long-term capital gain is taken. In the case of the animal which is purchased, the basis is the cost less any depreciation taken up to the date of the sale.

With a large herd of cattle, where it is not known which animal was sold, the taxpayer should use the first-in, first-out method of determination. If it is not known whether the animal was purchased or raised, it is to the taxpayer's advantage taxwise to report the animal as being raised because he takes depreciation on the animals which he has purchased. This depreciation is charged against ordinary income and deducted 100% rather than 50% which is applicable to capital assets.

Certainly, if it can be determined whether the animal was purchased or raised, it should be reported accordingly. However, as a practical matter, very often a rancher does not know whether an animal was purchased or raised in a large cattle operation, so he should keep in mind the tax aspects of the transaction.

While the use of the cash receipts and disbursements method may result in distorted income from an accounting point of view, it has substantial tax benefits as pointed out in the above paragraphs.

Accrual Basis

The other method of accounting, based on accruals, will give a more accurate accounting of the business but it lacks some of the tax advantages of the cash receipts and disbursements method. In most cases it is probably better for the farmer and the rancher to use the cash method instead of the accrual method. Under accrual procedures, the taxpayer reports income as it is earned, whether or not received, and deducts expenses as they are incurred, even though actual payment has not been made.

On an accrual basis, the taxpayer computes his taxable income with the use of beginning and ending inventories, choosing one of the following four methods as a basis for costing:

Unit livestock price
Farm price
Cost
Cost or market, whichever is lower

The unit livestock price method is probably the most convenient for inventory use. It is recognized that operating conditions existing in the livestock industry are such that actual costs are impossible to secure. Therefore, prices which reflect reasonable estimates of normal costs of production are acceptable. The raised animals are classified into different age groups, and different amounts are assigned to these groups. A taxpayer who determines that it costs approximately $30.00 to produce a calf and $20.00 a year to raise the calf, could set up classifications such as:

Calves	$30.00
Yearlings	50.00
Mature animals	70.00

The unit livestock price method can be used only for livestock raised on the farm, and, if used, must be applied to all animals raised, regardless of whether they are for sale, breeding, draft, or dairy purposes. If the unit price method is used, any livestock purchased must be included in inventory at cost. The exceptions are animals purchased for breeding, dairy, or draft purposes, which may be treated as depreciable assets.

The other inventory method most widely used is the farm price method. Under this method, inventories at the beginning and end of the year are valued at the market price, less selling expenses and cost of transportation. Under this method the taxpayer may pay an income tax on the value of livestock which may never be realized if the market price goes down before actual sales are made.

The inventory methods of cost, or cost or market, whichever is lower, are seldom used by ranchers because it is difficult to allocate cost in a livestock operation.

If raised breeding stock is inventoried, the increase in inventory value each year is taken up in the tax return as ordinary income until the animal is grown. The accrual basis has the advantage of preventing income from being pyramided in certain years. The accrual method can generate income in the early years which will offset the high expenses of herd building. This will reduce taxable income when sales are made from the herd in later years.

Once the choice of an accounting method is made, the taxpayer is bound by his choice unless the Internal Revenue Service consents to a change. I have found that it is almost impossible to obtain permission to change from the accrual method to the cash method. Thus, I would advise starting with the cash method.

Income Averaging

If the taxpayer is on the cash basis and finds that through circumstances beyond his control he has income pyramided in one year, he can get some relief from tax at a higher rate by averaging his income. Taxpayers having unusual fluctuations in income have been provided with an averaging device to ease the tax bite in peak income years. The formula for averaging income is complicated, but if the taxpayer will use Schedule G (Form 1040) to average his income he will achieve the tax savings available to him through the means of income averaging.

Cost Allocation

If a taxpayer is planning to buy a farm or a ranch, he should try to arrange the terms of the purchase contract to his best tax advantage. For example, allocate as much of the purchase price as possible to particular assets in order to obtain a higher cost basis for them. This will reduce taxable income from assets which are to be sold, such as cattle, crops, and so forth. Or, it could increase depreciation deductions from depreciable property acquired, such as barns, fences, cribs, tractors, and other pieces of farm machinery.

On inherited farm or ranch property, it isn't always advisable to value it at the lowest possible figure in order to hold down the estate tax. A higher valuation may ultimately save more in income taxes than the immediate increase in estate taxes.

Investment Credit

If a taxpayer buys or builds farm machinery, vehicles or other property used in farming or ranching business, he should check to see whether it qualifies for the investment credit. If it does, it can generally reduce the income tax liability by 7% of the cost of property qualifying for credit in the first year of use of the property.

The credit is generally limited to investment in tangible, personal property (other than livestock) and certain real property (other than buildings and their structural components). Fences used in connection with raising livestock can qualify.

Conservation Expenditures

A farmer may deduct soil and water conservation expenditures which do not give rise to a deduction for depreciation and which would increase the basis of the property except where he elects to deduct them. The expenditures must relate to land used in farming by the taxpayer or his tenant at the time the expenditures are made or at some time prior thereto.

The deduction is limited annually to 25% of the taxpayer's gross income from farming. The excess is deductible in succeeding taxable years without time limitation, but in each year the total deduction is limited to 25% of the gross income from farming in the year of the deduction.

Deductible expenses include the cost of leveling, grading, terracing, contour furrowing, construction, control and protection of diversion channels, drainage ditches, earthen dams, watercourses, outlets and ponds, the eradication of brush, the planting of windbreaks, and other treatment or moving of earth.

A farmer may elect to treat as deductible expenses, rather than as capital charges, expenditures for clearing land if such expenditures are for the purpose of making the land suitable for use in farming. The deduction is limited in any taxable year to $5,000.00 or 25% of the taxable income derived from farming during the taxable year, whichever is less.

Involuntary Conversion

If a taxpayer received payments for livestock sold or destroyed because of disease or drought, any gain can qualify as gain from an involuntary conversion. The taxpayer can elect to defer the tax if the animals are replaced.

Operating Losses

Losses incurred in the operation of farms or ranches as a business are deductible in the same manner as any net loss from a trade or business, including carry-over and carry-back of the net operating loss. Thus, if the farmer operates a farm in addition to being engaged in another trade or business and sustains a loss from such farm operations, the amount of loss sustained may be deducted from gross income received from all sources, provided the farm or ranch is not operated for pleasure.

The question of the taxpayer's intention to operate for profit or pleasure is a matter to be determined in every case from the facts and circumstances. Ordinarily, the fact that the farm or ranch has not been operated at a profit for many years is not enough to warrant the disallowance of farm expenses, even though it is shown that the owner is pursuing other business interests.

A special tax rule limits the loss deduction of farms which have losses in excess of $50,000.00 for five consecutive years. In determining whether deductions from the farm or ranch have exceeded gross income by $50,000.00 or more over a period of five consecutive years, each spouse in a community property state is considered as a separate taxpayer.

Tax Planning

It is very important that farmers and ranchers do tax planning. Before large sales are made, it is important to consider the overall tax consequences. If a farmer or rancher has children who work for him on the farm or ranch, paying them a reasonable wage for their work will reduce the farmer's or rancher's taxes. He can deduct his children's pay for work performed to the same extent as other farm wages, and may still be able to claim them as dependents.

Estate Planning

It is very important that farmers and ranchers do some estate planning. Under the present practice of the Internal Revenue Service, land is valued at current market price or the amount similar land is selling for on the current market. The farmer or rancher should give some thought to making gifts of some of his property to his children. The farmer or rancher might also give some thought to the advantages of taking his children into his business and forming a partnership.

Trusts are another effective avenue to achieve desired estate planning ends for a farmer or rancher.

In Conclusion

To summarize, the farmer or rancher will benefit economically from a good understanding of accounting procedures and tax regulations. Usually, a cash basis of accounting will be to his advantage and an informed application of the proper tax rules will enable him to conserve more of his hard-earned dollars for himself and his family.

PHILOSOPHY OF ACCOUNTING (3)

(Continued from page 9)

A final example. An expert verifies the depreciation of two identical machines, bought the same year. He examines the purchase invoice, the computation of depreciation, and is satisfied with their value as accounting documents. He makes a report that he declares to be true and exact. It appears, however, that his report is false. One of the two machines is no longer in existence because it has been destroyed in an accident. The insurance company had paid an indemnity but this was not recorded. A new machine had been purchased to replace it and the depreciation continued on the former machine.

Even if the accountant had taken the trouble to look at the machines, he would not have noticed anything except that the destroyed machine was at rest. But—our reports are always true—and exact.

TWENTY-FIVE YEARS AGO—in THE WOMAN CPA

The first mathematicians were the priests who calculated the advent of the seasons. History tells us that the early Egyptian temples were equipped with instruments to note the rise and fall of the Nile. But the great mass did not see any connection between prophecy and reality. Reading and writing were mysteries for centuries but the twentieth century made them common knowledge—at least in this country. Today the ordinary man knows something about scientific discoveries even though he doesn't know their mathematical bases. Side by side with the development of modern art and modern industry has been the development of commerce and finance. And most persons have some knowledge of them just as their primitive ancestors observed the rise and fall of the river but all they know about the mathematical side is that commerce and industry are represented by figures so astronomical that they are not to be understood.

From "Mathematics In Its Relation To The Commercial World"

by Jane E. Goode, CPA, October, 1943

TAX FORUM

DORIS L. BOSWORTH, CPA, Editor
Peat, Marwick, Mitchell & Co.
New York, New York

TAX PLANNING UNDER RECENT REVENUE RULINGS

Charitable Contributions of Closely Held Corporations

Your attention is directed to Rev. Rul. 68-314, IRB 1968-25, 10 and its rather startling tax implications in the case of charitable contributions by corporations under certain circumstances. The ruling is concerned with two fact situations, but it is with the first that practitioners should be primarily concerned.

A foundation was formed by an individual taxpayer which received its entire support from the founder and a corporation of which he was the sole stockholder. The Service ruled that to the extent of contributions made by the corporation to the foundation, they were taxable to the sole shareholder as a dividend and also deductible by him as a contribution, subject to appropriate percentage limitations.

This ruling was predicated on prior Court decisions to the effect that corporate distributions of money or property to a third party for the benefit of the controlling stockholder are deemed to be dividends to the extent they serve the sole personal interests of the stockholder.

In the instant case the Treasury Department indicated that the relationship of the corporate shareholder to the foundation was such that the transfer by the corporation was considered to have been made solely as a reflection of the shareholder's intentions.

While the ruling did not elaborate on the nature of the relationship, undoubtedly this ruling will effectively curtail any future possibilities of utilizing closely held corporations to finance charitable purposes beyond the taxpayer-shareholder's individual means.

Based on the rationale of this ruling, it would seem that even if the corporation made a contribution directly to an institution supported by the general public rather than the taxpayer's foundation, the possibility of dividend implications would arise.

In the second situation covered by the ruling, the corporation did contribute paintings to a public museum. In permitting the corporation to make the contribution, the Service indicated that the sole shareholder had no control over the museum, but also pointed out that the donation was expected to stimulate future sales of the corporation and the gift could not, therefore, be serving only the personal interests of the sole shareholder.

Absent this second business reason for making the contribution, if it could be demonstrated that the corporate contribution was in furtherance of an intention on the part of the shareholder to meet a particular need of the charity through personal and corporate contributions it would seem that the dividend problem might very well arise.

Certainly in the future where a closely held corporation makes large contributions it would be advisable to make them to public charities other than those to which the controlling shareholder contributes.

Group Life Insurance

Whenever group life insurance comprises a substantial portion of an estate, the very nature of the type of coverage presents estate planning problems. Even though all rights to the policy are assigned to another, termination of employment usually results in its cancellation, and the employee by his overt-act of resignation has negated all other rights vested in the transferee.

Rev. Rul. 68-334, IRB 1968-26, 19 has offered a possible solution to this problem. The Service has indicated that group life policies transferred to another will not be included in the employee's estate where the group policy and state law permit the employee to make an absolute assignment of *all* his incidents of ownership in the policy.

Such incidents of ownership must include conversion privileges, whereby the assignee acting alone can convert the policy to permanent coverage upon termination of employment of the insured. Under these circumstances it is no longer possible for the employee to defeat the interest of the assignee through his resignation.

Certain drawbacks exist despite this ruling, which must be resolved prior to transfer. The group policy itself must incorporate transfer privileges within its terms, including the right to transfer the conversion privilege to another. This difficulty may be planned for when the group life plan is adopted, but the question of state law on such transfers must also be investigated. Presently very few states incorporate specific provisions as to transfer in their statutes but in all probability subsequent remedial legislation will be enacted.

Another phase of the problem that has not been clarified is the question of inclusion in the estate, despite transfer, in the light of Rev. Rul. 67-463 discussed in the Tax Forum in April. Inasmuch as the group life insurance exists by virtue of the continued employment of the insured, it may be that the Treasury Department would attempt to impute payment of the subsequent premiums to the employee by virtue of this. To adopt such an attitude, however, would render the current ruling meaningless.

ADDENDUM

For those of you who attended the "Estate Planning" tax session at the Joint Annual Meeting of the American Woman's Society of Certified Public Accountants and the American Society of Women Accountants in Washington, D. C., in October, or who have an interest in this field, we call your attention to two recent publications that may prove helpful. The first is Publication No. 448 (12-67) of the U. S. Treasury Department, Internal Revenue Service—"A Guide to Federal Estate and Gift Taxation" which may be obtained from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 (25¢). It is a ready reference to the more important provisions of the Federal estate and gift tax laws and regulations. While only 32 pages in length, it provides a capsule summary of pertinent provisions with which the practitioner must be completely familiar before embarking on an estate planning program.

The second publication recommended is the 1968 edition of a monograph by Joseph Hatchman on Estate Planning, published by Practicing Law Institute. This book is concerned not only with the tax savings involved in proper planning; but also the many other factors responsible for the ultimate decision as to the preferable disposition of assets.

"THE FEDERAL INCOME TAX – ITS SOURCES AND APPLICATIONS,"—Clarence F. McCarthy, CPA, Billy M. Mann, CPA, Byrle M. Abbin, CPA, William H. Gregory, CPA, and John P. Lindgren, CPA. Prentice Hall, Englewood Cliffs, New Jersey, 1968, 518 pages plus index of cases and subject index, $10.95.

This joint effort of partners and managers of Arthur Andersen & Co. fulfills the aspirations set forth in the preface—that of enabling the student to find the answers to tax problems encountered in business and professional life. While the authors have recommended that the book be used in a one-semester course of either two or three hours, I believe that the book goes beyond the classroom and should be "required reading" for everyone embarking on a career in taxes.

Viewed as a text, the completely new approach in teaching should prove a boon to the student. The narrative form, combined with a liberal supply of specific examples and cases, makes for interesting reading. The student is introduced to a particular subject either through a delineation of the legislative history or a discussion of the overall concept responsible for that particular law; and the subject is therefore bound to take on greater significance than through learning by rote. The Questions and Problems at the end of each chapter are interesting and reduce the subject to its practical application in the business world.

From the point of view of the neophyte in the field of taxation, especially one whose only exposure has been study on a learn-the-rules basis, this book will be extremely helpful. Those chapters dealing with a survey of the tax system will, in all probability, be his first introduction to tax practice and procedure as well as the primary Tax Reporter Services. In addition to giving new meaning to his scholastic preparation, the text will develop his ability to recognize and analyze tax problems—a most necessary qualification for any contemplated career in taxes.

The use of this publication as a basic reference should accelerate the process of acquiring the requisite tax background of a successful tax practitioner.

Doris L. Bosworth, CPA

REVIEWS—Writings in Accounting

PHYLLIS E. PETERS, CPA, Editor
Touche, Ross, Bailey & Smart
Detroit, Michigan

"DISTORTIONS ARISING FROM POOLING-OF-INTERESTS ACCOUNTING," Abraham J. Briloff, CPA, FINANCIAL ANALYSTS JOURNAL, Volume 24, No. 2, March-April 1968.

This very interesting and humorously written article discusses the "credibility gap" which the author finds in annual reports of firms which have acquired interests in other entities during the fiscal year. Some of the "dirty pooling" to which he refers consists of the "instant earnings growth" which appears when the income statement for the year prior to pooling is compared with that for the year in which pooling occurred, resulting in comparison of data which are not really comparable when there is no adjustment for the acquisitions made during the year. *(Editor's Note: APB Opinion 10, effective for periods beginning after December 31, 1966, directs itself to this problem in paragraph 5. It states "...historical financial data of the continuing business for periods (including interim periods) prior to that in which the combination was effected, when presented for comparative purposes, should be restated on a combined basis.")*

He uses examples to prove his point—the annual reports of several well-known enterprises. He cites the 1967 annual report of one entity where the increases in sales and earnings are shown as 33% and 26%. According to the author's calculations, these percentages would be only 15% and 16% if comparison is between the previous year's data and current data which did not include the acquisitions made during the year. He uses other annual reports to point up cases of cost and value suppression.

The author suggests abandoning pooling-of-interests accounting except where shareholders of the acquired corporation receive common stock interest of at least 30% in the combined complex. He also advocates continuance of separate accounting for each entity, and he is very definite in recommending that no comparative data be released where items are differently determined.

This is an important article for both the investor and the accountant; no punches are pulled in a very provocative essay.

Dr. Bernadine Meyer
Duquesne University

"ORGANIZATIONAL PSYCHOLOGY," Bernard M. Bass; Allyn and Bacon, Inc., Boston, 1965; 408 pages; about $7.

"People cause most of my problems." The accountant who has never made that statement aloud has surely reflected silently, at one time or another, upon its veracity. For the accountant who is interested in delving deeper into the behavior of human beings in the setting of an industrial organization, *Organizational Psychology* will prove interesting, rewarding, and worth every minute of the time spent reading and "pursuing" it. (Pursuing, yes, in the sense that one mentally follows up on what he has read and considers its application to his own situation.)

The book treats such topics as employee attitudes toward the job, job satisfaction, the rewards of work, motivation of the individual to work, behavior of supervisors, working in groups, communications in the organization (formal as well as the grapevine), and conflict within the organization.

The mature and experienced accountant should have no difficulty with the vocabulary. It is not difficult reading and is definitely NOT a book for those interested only in esoteric excursions in the rarefied atmosphere of pure psychological theory. Instead, it is practical, understandable, and the kind of book that will undoubtedly cause the reader to say, as different concepts are developed, "Now, that's almost exactly the situation we had with the budget last week," or, "No wonder our committee doesn't get much done," or, "Perhaps I should do thus and so," etc., etc., etc.

For anyone who works with people, it's a valuable book. And the hermit just might discover how much he's missing!

Dr. Bernadine Meyer
Duquesne University

"ACCOUNTING AND AUDITING APPROACHES TO INVENTORIES IN THREE NATIONS," International Study Group; American Institute of Certified Public Accountants, New York, 1968; 48 pages; $1.50.

The aim of the paper is to restate present recognized accounting and auditing practice as it relates to inventories in Canada, Great Britain and Ireland, and the United States from a common standpoint, to show up major areas of similarity and difference, to indicate areas requiring further study, and, if possible, to point the way to a consolidation of best international practice.

The first thing that strikes anyone comparing inventory accounting and auditing practices in Canada, the United Kingdom, and the United States is differences in terminology among the three countries. British accountants generally speak of "stock in trade and work in progress" which they usually shorten to "stock." North American accountants usually speak of "inventories." The pamphlet points out, however, that the differences, at least so far as the subject of the paper is concerned, are seen to be largely superficial.

The pamphlet discusses various topics in connection with inventories, including the meaning and significance of inventory, internal control, physical inspection of inventory for control purposes, auditing aspects of physical inspection, and valuation of inventory. Five main conclusions from the comparison of principles and practices are drawn.

First, the amount to be attributed to inventories is of fundamental importance in the preparation of the financial accounts of most businesses.

Second, it is a primary responsibility of management to ensure that adequate inventory records are maintained and that inventories are managed and safeguarded under a properly planned and operated system of internal control.

Third, inventories should be subjected to physical inspection, under proper managerial supervision, at intervals appropriate to the nature and circumstances of the business.

Fourth, attendance to observe physical inspection of inventories is a most significant verification procedure for audit purposes. This practice has received more forceful emphasis in North America than in the United Kingdom.

Fifth, inventories should be valued, in general, on a consistent basis from year to year, at the lower of cost (including an appropriate amount for overhead expenditure) or market (as in the United States) or at the lower of cost or net realizable value (as in Britain and Canada).

This paper, dated January 1968, is the first of a series prepared by the International Study Group. The study group was set up at the end of 1966 jointly by the three Institutes of Chartered Accountants in Great Britain and Ireland, the Canadian Institute of Chartered Accountants, and the American Institute of Certified Public Accountants for the purpose of making "comparative studies as to accounting thought and practice in participating countries, to make reports from time to time, which, subject to the prior approval of the sponsoring Institutes, would be issued to members of those Institutes."

This paper should be, as the authors hope, a landmark in the field of international cooperation by the accounting profession.

Mary E. Burnet, CPA
Rochester Institute of Technology

"COMPUTERIZED COST SYSTEM IN A SMALL PLANT," John P. Malloy, HARVARD BUSINESS REVIEW, Volume 46, No. 3, May-June 1968.

This article reports the actual experience at a machine works in the Mid-west employing about 135 persons. The seventh consecutive year in which losses were reported was 1964, when the company lost $58,000 on sales of $1,220,000 and had a stockholders' equity of $116,000. A new management was brought in, with the author as president, and a five-year profit improvement plan inaugurated. In 1967 the firm earned $52,000 on sales of $1,955,000; stockholders' equity had increased to $254,000.

The vital factor in this improvement was a computerized information system, with a control center established on the factory floor, resulting in better quality control, lower costs, a new timekeeping system, and a new chart of accountability. To do this the firm did not have to purchase a computer nor did it find that data processing costs were exorbitant. The company's budget for data processing is $850 a month, and the firm requires only four hours of rented time a week on an IBM 1401.

The article is extremely helpful, since it relates the true experience of a small manufacturer who was able to make a computer and its related systems a productive tool. This is recommended reading for anyone interested in the small firm.

Dr. Bernadine Meyer
Duquesne University

AMERICAN SOCIETY OF WOMEN ACCOUNTANTS CHAPTER PRESIDENTS—1968-1969

Listed below are the locations of the 80 chapters of the American Society of Women Accountants together with names and addresses of the respective chapter presidents for the 1968-1969 year. This convenient roster is being presented especially for the benefit of our non-member subscribers, many of whom are students who have been introduced to our publication by our long-time back cover advertiser, the International Society of Accountants, Inc., a home study school since 1903.

Naomi Nelson, national president of ASWA, suggests that students or other non-member readers may be interested in contacting the chapter president in their area with a view to attending a meeting or investigating the possibilities of membership.

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